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AMEMBASSY TEL AVIV

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AMCONGEN HONG KONG
USINT BAGHDAD
USLO PEKING
USMISSION OECD PARIS UNN

C O N F I D E N T I A L SECTION 1 OF 4 TOKYO 11065

E.O. 11652: GDS
TAGS: JA, PFOR, EGEN, ENRG
SUBJ: JAPAN, THE MIDDLE EAST AND THE USA

REF: TOKYO 9186 (JAPANESE ENERGY ISSUES AND TOPICS)

INTRODUCTION: IN THIS CABLE THE EMBASSY SURVEYS JAPAN'S DEEPENING INVOLVEMENT IN THE MIDDLE EAST--A KEY CONCERN OF JAPANESE STRATEGIC PLANNERS SINCE THE 1973 CRISIS. WE HAVE PREPARED THE CABLE IN ANTICIPATION OF BILATERAL CONSULTATIONS EARLY THIS AUTUMN AND FOR THE INFORMATION OF OUR COLLEAGUES IN MIDDLE EAST POSTS WHO MAY FIND IT USEFUL IN DISCUSSIONS WITH JAPANESE COUNTERPARTS. WE ARE CONSCIOUS THAT THE TOKYO PERSPECTIVE MAY DOMINATE AND WILL WELCOME COMMENTS--CORRECTIVE OR SUPPLEMENTAL--FROM MIDDLE EAST POSTS. END INTRODUCTION.

1. SUMMARY: JAPAN'S INTERESTS IN THE MIDDLE EAST TRACE TO A SINGLE BUT ESSENTIAL RESOURCE: OIL. SINCE THE TRAUMATIC EVENTS OF 1973, JAPANESE POLICY TOWARDS THE MIDDLE EAST HAS PURSUED A CALIBRATED OBJECTIVE: TO ENHANCE THE SECURITY OF THIS ITS MOST IMPORTANT ENERGY SOURCE--WITHOUT SORELY STRAINING EQUALLY IMPORTANT RELATIONS WITH THE US. PARTIALLY IN A QUEST FOR COUNTERVAILING LEVERAGE, AND PARTIALLY AS THE NORMAL RESPONSE OF A GREAT MANUFACTURING POWER TO THE APPEARANCE OF NEW MARKETS, JAPAN IS SEEKING TO EMBED ITSELF IN THE ECONOMIC LIFE OF THE REGION. AS A CONSEQUENCE, THE FOUNDATIONS OF A PERMANENT AND SUBSTANTIAL, BUT PRAGMATIC AND LIMITED, JAPANESE PRESENCE THERE HAVE BEEN LAID.

2. JAPAN IS NOW OF SUBSTANTIAL IMPORTANCE TO SUCH KEY STATES AS SAUDI ARABIA, KUWAIT, IRAN AND IRAQ; BUT THE BALANCE OF ECONOMIC POWER REMAINS CLEARLY ASYMETRICAL. THOUGH TOKYO HAS TRADITIONALLY AVOIDED
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POLITICAL ENTANGLEMENTS IN THE MIDDLE EAST, ITS ECONOMIC INTERESTS THERE HAVE REQUIRED IT TO ARTICULATE A POLITICAL POSITION WHICH MINIMALLY MEETS ARAB EXPECTATIONS.

3. JAPAN BEARS SEVERAL HANDICAPS IN THE QUEST FOR COUNTERVAILING LEVERAGE. IT EXPORTS NO ARMS. IT HAS NO TRADITIONAL TIES TO THE REGION. JAPANESE LANGUAGE, CULTURE AND PSYCHOLOGY IMPEDE COMMUNICATION WITH THE ARABS. EVEN SO, JAPAN IS PROTECTING AND FURTHERING

ITS INTERESTS IN THE MIDDLE EAST WITH CHARACTERISTIC ENERGY AND INTELLIGENCE.

4. JAPAN IS AND WILL REMAIN A FORMIDABLE EXPORT RIVAL TO THE US IN THE MIDDLE EAST, BUT THERE IS ALSO A BASIC CONGRUITY OF GEOPOLITICAL INTERESTS. JAPAN WILL DODGE CONFRONTATION WITH THE ARABS, BUT IT AIMS IN OBLIQUE WAYS TO HELP US PRESERVE A BALANCE OF POWER IN THE REGION. STILL UNSURE OF ITS JUDGMENT ON MIDDLE EAST MATTERS, THE GOJ IS EAGER FOR -- AND CONSIDERATE OF -- AMERICAN COUNSEL. TOKYO'S PARTICIPATION IN IEA ASSURES THAT ITS OVERALL ENERGY POLICIES ARE COORDINATED WITH US POLICIES. SIMILAR COORDINATION ON MIDDLE EAST QUESTIONS ALSO NEEDED. THROUGH CANDID DIALOGUE WITH THE GOJ, THE EMBASSY BELIEVES, THE US CAN REDUCE TOKYO'S FEAR OF RANDOM SHOCKS, STRENGTHEN ITS RESILIENCE IN A CRISIS, AND HELP TO ASSURE THAT WE DO NOT WORK AT CROSS PURPOSES. FURTHER, WE CAN ENCOURAGE A MORE ACTIVE JAPANESE ROLE IN THE MIDDLE EAST'S STABILIZATION AND LINKAGE TO THE INDUSTRIAL DEMOCRACIES. END SUMMARY.

-----THE SETTING

5. JAPAN'S OVERRIDING INTEREST IN THE MIDDLE EAST IS TO MAKE JAPAN'S OIL SUPPLY AS SHOCK-PROOF AS POSSIBLE. JAPAN OBTAINED IN 1975 80 PERCENT OF ITS OIL (60 PERCENT OF ITS TOTAL ENERGY SUPPLY) FROM THE MIDDLE EAST. THE ARAB STATES ALONE SUPPLIED NEARLY 50 PERCENT OF JAPAN'S OIL; JAPAN IS OPEC'S SINGLE LARGEST CUSTOMER BY A SUBSTANTIAL MARGIN. IN SPITE OF THE INSURANCE PROVIDED BY THE IEA OIL SHARING PLAN, THE JAPANESE PUBLIC BELIEVES WAR OR POLITICAL DECISIONS TO WHICH JAPAN IS BUT A BYSTANDER COULD JUST AS EFFECTIVELY CUT JAPAN'S OIL LIFELINE IN 1976 AS IN 1973. ALTHOUGH BULGING STORAGE TANKS GIVE SOME COMFORT FOR THE SHORTRUN, THE DISASTEROUS EFFECTS OF A SUDDEN BREAK IN THE OIL LIFELINE TO THE MIDDLE EAST WAS THE THEME OF A RECENT BEST-SELLING NOVEL HERE.

6. UNTIL 1973 JAPANESE STEERED CLEAR OF THE TRIBULATIONS OF THE
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MIDEAST. ITS DIPLOMATIC REPRESENTATION WAS MINIMAL. THE GOJ RELIED ON THE US TO MAINTAIN A BALANCE OF POWER IN THE REGION AND TO LIMIT SOVIET INFLUENCE. IT HAD FEW INVESTMENTS THERE AND IT LOOKED TO THE MAJOR OIL COMPANIES TO MOVE OIL CHEAPLY AND EFFICIENTLY TO JAPAN.

7. THE VERY SHALLOWNESS OF JAPAN'S INVOLVEMENT IN THE MIDEAST CONTRIBUTED TO TOKYO'S PANICKY AND UNCOORDINATED RESPONSE TO THE OCTOBER 1973 OPEC EMBARGO. AT FIRST CLASSIFIED "NEUTRAL" AND THUS SUBJECT TO CUT-BACKS IN OIL SUPPLIES, ON NOVEMBER 22, 1973, JAPAN PAID OPEC ITS POLITICAL PRICE: TOKYO CALLED ON ISRAEL TO WITHDRAW FROM ALL THE TERRITORIES OCCUPIED IN THE 1967 WAR. ALTHOUGH UNDERLINING ISRAEL'S RIGHT TO EXIST, "DEPENDING ON FUTURE DEVELOPMENTS" TOKYO ALSO THREATENED TO RECONSIDER ITS POLICY TOWARDS ISRAEL. POLITICAL LEADERS THEN SET OUT FOR JIDDA, BAGHDAD, KUWAIT AND OTHER OIL STATE CAPITALS TO PROMISE VAST EXPANSION OF JAPAN'S BILATERAL ECONOMIC

ASSISTANCE IN THE AREA. IN EARLY 1974, TOKYO'S IMMEDIATE OBJECTIVE
WAS ACHIEVED: OAPEC PLACED JAPAN ON THE "FRIENDLY" LIST.

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8. GOJ LEADERS JUDGED THE GESTURE TO OAPEC IMPERATIVE. THEY FEARED, HOWEVER, THAT WASHINGTON MIGHT REACT HARSHLY. THE FEBRUARY, 1974, WASHINGTON ENERGY CONFERENCE AND, SUBSEQUENTLY, THE IEA GAVE JAPAN THE OPPORTUNITY, AMONG OTHER THINGS, TO DEFEND ITS AMERICAN PLANK. THE IEA'S EMERGENCY OIL SHARING PLAN AFFORDS JAPAN IMPORTANT INSURANCE AGAINST PRODUCTION INTERRUPTIONS. TOKYO ALSO CONSIDERS THAT IEA'S LONG-TERM PROGRAM TO DEVELOP ALTERNATIVE ENERGY SOURCES IS THE ONLY VIABLE MEANS OF REDUCING PRODUCER POWER. EVEN SO, TOKYO HAS BEEN NERVOUS ABOUT IEA'S CONFRONTATIONAL ASPECTS; ITS ACTIVE PARTICIPATION IN THAT FORUM IS CLEARLY TRACEABLE TO A JUDGMENT THAT ONLY BY SO DOING CAN IT ASCERTAIN AND DISCREETLY INFLUENCE US ATTITUDES.

-----LESSONS LEARNED

9. AS THE OIL CRISES RECEDES IN MEMORY, TOKYO IS TAKING AMORE MEASURED VIEW OF THE REGION, ITS PROBLEMS AND JAPAN'S LONGER TERM INTERESTS THERE. ITS GROWING SOPHISTICATION IS IN PART THE RESULT OF THE CRASH DEVELOPMENT OF AN EXPANDED CORPS OF ARAB EXPERTS IN THE MINISTRIES OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE AND INDUSTRY (.858). THE FOREIGN MINISTRY HAS MORE THAN DOUBLED ITS STAFF POSTED TO THE REGION. THE ECONOMIC PLANNING AGENCY, KEIDANREN (THE TOP BUSINESS ORGANIZATION), AND EVEN THE FULING LIBERAL DEMOCRATIC PARTY HAVE CREATED MIDDLE EAST RESEARCH AND INFORMATION CENTERS.

10. TOKYO'S GROWING SOPHISTICATION IS ALSO DUE TO EXPERIENCE AND KNOWLEDGE GAINED IN RESPONDING TO THE MIDDLE EAST'S BURGEONING DEMAND FOR IMPORTS. BUT MOST OF ALL, IT IS THE PRODUCT OF LESSONS LEARNED FROM TOKYO'S CLUMSY ATTEMPTS, IN 1973-74, TO EMBRACE THE ARABS. AMONG THESE LESSONS:

--JAPAN CANNOT ESTABLISH A "SPECIAL RELATIONSHIP WITH THE ARABS BASED SIMPLY ON ASIAN ORIGIN OR INNOCENCE OF COLONIAL TAINT
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IN THE AREA. BY VIRTUE OF DEVELOPED STATUS, AND ITS ALLIANCE WITH THE US, JAPAN IS REGARDED BY ARABS AS A WOULD-BE EXPLOITER.

--FOR THEIR PART, THE JAPANESE PERCEIVE THE MIDEAST AS ALIEN AND INHOSPITABLE TERRAIN. VERY FEW JAPANESE CARE TO WORK THERE, AT ANY SALARY. NEARLY ALL WOULD AGREE WITH ONE JAPANESE DIPLOMAT'S DESCRIPTION OF THE ARAB-ISRAELI IMPASSE AS "A RELIGIOUS QUARREL BETWEEN FARAWAY PEOPLE, ENTIRELY OUTSIDE OUR PHILOSOPHIC AND MORAL TRADITION." JAPANESE UNIVERSALLY SEEM TO BELIEVE THAT -- BY VIRTUE OF HISTORICAL TRADITION, ARAB TASTE, CULTURE AND PSYCHOLOGY -- AN OVERWHELMING ADVANTAGE IN DEALING WITH ARABS ACCRUES TO THOSE OF EUROPEAN ORIGIN.

--"BILATERALISM," I.E., LARGE SCALE ECONOMIC DEVELOPMENT PROJECTS IMPLICITLY LINKED TO SUPPLY COMMITMENTS, CAN IMPROVE THE SECURITY OF JAPAN'S OIL SUPPLY ONLY VERY marginally. THOUGH IT HAS UNDERTAKEN SEVERAL SUCH "NATIONAL PROJECTS," JAPAN HAS RECEIVED NEITHER IRON-CLAD ASSURANCES OF SUPPLY NOR A FAVORABLE PRICE BREAK. NOR ARE ARABS OVERLY HUNGRY FOR JAPANESE TECHNOLOGY; THEY THINK IT IS INFERIOR AND EXPECT IT TO COME CHEAP. NOW, THEREFORE, FOREIGN OFFICE CLAIMS OF "INTANGIBLE POLITICAL VALUE" ARE HEAVILY DISCOUNTED BY FINANCE MINISTRY MONEY MANAGERS; "NATIONAL PROJECTS" MUST MEET STRINGENT ECONOMIC CRITERIA.

-----AND JUDGMENTS MADE

11. ANALYZING DEVELOPMENTS SINCE THE OCTOBER WAR, THE GOJ HAS JUDGED:

--THAT LITTLE OIL IS LIKELY TO BE AVAILABLE FOR DIRECT DEALS AT LEAST INTO THE 1980'S. CONTRARY TO SOME PREDICTIONS, THE INTERNATIONAL OIL COMPANIES HAVE COME TO TERMS WITH THE PRODUCERS AND WILL CONTINUE FOR MANY YEARS TO DOMINATE PETROLEUM REFINING, MARKETING AND DISTRIBUTION) IF NOT CRUDE OIL PRODUCTION LEVELS AND PRICES. LARGELY BECAUSE THE MAJORS PROVED UNEXPECTEDLY RESOURCEFUL IN SUPPLYING JAPAN DURING THE OIL CRISIS, THE GOJ VIEW ITS DEPENDENCE ON THEM WITH CONSIDERABLE COMPOSURE.

--THAT OIL WILL CONTINUE TO BE USED BY CERTAIN PRODUCERS AS AT LEAST AN IMPLICIT POLITICAL WEAPON. BUT THE ARAB OIL PRODUCERS WITH THE EXCEPTION OF SAUDI ARABIA NEED STEADY REVENUES TO FINANCE GREATLY ENLARGED DEVELOPMENT PROGRAMS. EVEN SHOULD WAR AGAIN BREAK OUT, THESE NATIONS PROBABLY COULD NOT CUT PRODUCTION LONG ENOUGH AND DEEP ENOUGH TO THWART THE IEA STOCKPILING AND OIL SHARING PROGRAM.

--THAT OIL PRICES CANNOT BE ROLLED BACK IN THE ABSENCE OF ALTERNATIVE ENERGY SOURCES AT REASONABLE PRICES. OPEC WILL NOT BREAK APART SIMPLY FROM INTERNAL CONTRADICTIONS. NONETHELESS, IF THE IN-

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INDUSTRIAL DEMOCRACIES COOPERATE CLOSELY (BUT NON-CONFRONTATIONALLY), FUTURE DISRUPTIVE PRICE INCREASES MAY BE FORESTALLED.

--THAT POLITICS CANNOT BE NEATLY SEPARATED FROM ECONOMICS. BELIEVING THAT IT IS PERCEIVED BY THE ARABS AS THE "WEAK LINK" IN THE INDUSTRIAL CHAIN, JAPAN EXPECTS TO BE SINGLED OUT FOR RECURRENT ARAB POLITICAL PRESSURE. BUT, GOJ PLANNERS ARE BETTING THAT IF

JAPAN ADOPTS A POLITICAL STANCE ON PALESTINE THAT MINIMALLY SATISFIES THE LARGEST OIL PRODUCERS (WHO, BY AND LARGE, DO NOT MAKE EXTREME DEMANDS), PRESSURE FROM THE RADICAL ARAB STATES CAN BE WITHSTOOD.

-----JAPAN'S OBJECTIVES

12 THESE LESSONS LEARNED AND JUDGMENTS MADE, JAPAN STILL DOES NOT HAVE, WE ARE TOLD, A "BASIC POLICY" ON THE MIDDLE EAST THAT RECONCILES THE DIVERGENT PERCEPTIONS AND PAROCHIAL INTERESTS OF MOFA, MITI, THE ECONOMIC PLANNING AGENCY AND THE MINISTRY OF FINANCE (.9*). CONTROVERSIES OVER WHICH OBJECTIVES TO EMPHASIZE, AND HOW, CAUSE HEARTBURN TO WORKING LEVEL JAPANESE BUREAUCRATS; THEY DO NOT WORRY THEIR SUPERIORS SO MUCH. A DEGREE OF AMBIGUITY IS A VIRTUE IN THE JAPANESE DIPLOMATIC STYLE THAT ONE OBSERVER HAS TERMED "ACTIVE DEFENSE". UNABLE TO CONTROL AND SHAPE EVENTS IN THE MIDDLE EAST, TOKYO TRIES TO ANTICIPATE DEVELOPMENTS AND MOVE TO KEEP OPEN AS MANY OPTIONS AS POSSIBLE. IN FACT, AMBIGUITY MAY BE ESSENTIAL IF TOKYO IS TO AVOID BEING CAUGHT IN A CROSSFIRE OVER PALESTINE.

13 OFFICIAL TOKYO HAS NOT ARTICULATED A CLEARLY ETCHED POLICY. NONETHELESS, THE ELEMENTS OF A DISTINCTIVE JAPANESE APPROACH TO THE MIDDLE EAST CAN BE IDENTIFIED. THESE ARE:

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-----HELPING TO PREVENT WAR IN THE MIDEAST

14. JAPAN'S LEVERAGE OVER QUESTIONS OF WAR AND PEACE IN THE MIDDLE EAST IS MARGINAL, AND WHOLLY DIPLOMATIC AND FINANCIAL. THE DOMESTIC POLITICAL CLIMATE WILL NOT SOON, IF EVER, PERMIT ANY MILITARY INVOLVEMENT -- EVEN THE EXPORT OF ARMS OR PERSONNEL CONTRIBUTIONS TO PEACE-KEEPING FORCES. THE GOJ CANNOT POLITICALLY DEFEND AT HOME A POLICY OF HELPING TO PRESERVE A BALANCE OF POWER IN THE REGION. NONETHELESS, THE FOREIGN OFFICE AND, TO A LESSER EXTENT, TOP POLITICAL LEADERS, DO APPREHEND THAT IF THE PRESENT TRUCE IS TO BE MAINTAINED, AND IF SOVIET INFLUENCE IS TO BE LIMITED, THE UNITED STATES NEEDS HELP. THE FINANCE MINISTRY NONETHELESS CONSIDERS FOREIGN AID OF VERY DOUBTFUL POLITICAL UTILITY. IN 1974 WE URGED JAPAN (IN OUR ANNUAL POLICY PLANNING TALKS) TO DEVELOP RELATIONS WITH THE CONFRONTATION STATES; THE CONTINUING INTRA-BUREAUCRATIC DEBATE HERE OVER HOW MUCH TO AID EGYPT, JORDAN, UNDOF, ETC.,

IS IN A SYMBOLIC SENSE A REFERENDUM OF HOW MUCH JAPAN SHOULD LEND US SUPPORT ON MIDDLE EAST BALANCE OF POWER QUESTIONS. SIGNIFICANTLY, HOWEVER PUBLIC DISCUSSION IS ALMOST WITHOUT EXCEPTION FRAMED AS A QUESTION OF HOW TO BEST INSURE JAPAN'S OIL SUPPLIES.

-----TILTING TOWARD THE ARABS ON PALESTINE

15. REGARDING THE PALESTINE IMPASSE, TOKYO IS SQUARELY SET ON A CAUTIOUSLY PRO-ARAB COURSE. FOREIGN OFFICE EXPERTS PRESENTLY REGARD ISRAELI INTRASIGENCE AS THE PRINCIPLE OBSTACLE TO MIDEAST PEACE. THEY ARGUE THAT THE ARABS, INCLUDING THE PLO, HAVE IMPLICITLY ACCEPTED THE "MINI-PALESTINE" CONCEPT AND IT IS HIGH TIME FOR ISRAEL TO MAKE A RECIPROCAL GESTURE. SINCE LAST WINTER, JAPANESE SPOKESMEN HAVE STRESSED "THE LEGITIMATE RIGHTS OF THE PALESTINIANS" AS CO-EQUAL TO "GUARANTEES OF THE RIGHT TO EXIST" OF EVERY STATE IN THE REGION AND THE RESTORATION OF 1967 BOUNDARIES. AND, WITH SOME PRODING BY PRIME MINISTER MIKI, THE FOREIGN OFFICE HAS WARMED TOWARDS CONFIDENTIAL

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THE PLO. "FOREIGN MINISTER" KADDOUMI RECEIVED VERY CLOSE TO FULL PROTOCOL HONORS WHEN HE VISITED TOKYO IN APRIL AS A GUEST OF THE RULING LIBERAL DEMOCRATIC PARTY -- A GESTURE THAT AMPLY COMPENSATED FOR THE GOJ'S RELUCTANCE TO ACCORD A PLO "INFORMATION OFFICE" QUASI-DIPLOMATIC STATUS.

16. JAPANESE DIPLOMATS TELL US THAT THE GOJ SEEKS TO SUPPORT THE PLO'S "MODERATE (ARAFAT) WING" AGAINST RADICAL OPPONENTS. WHEN WE WEIGH THIS TOGETHER WITH JAPAN'S ABSTENTION ON THE ZIONISM EQUALS RACISM VOTE IN THE UN LAST AUTUMN AND ITS POSITION IN A NUMBER OF OTHER RECENT DIPLOMATIC SKIRMISHES, WE THINK THAT TOKYO AIMS TO STAY SLIGHTLY AHEAD OF THE EUROPEAN POWERS IN ITS ACCOMMODATIONS TO ARAB NATIONALISM. TOKYO WILL AVOID TILTING SO FAR AS TO COMPLICATE ITS RELATIONS WITH THE US, BUT IT HOPES TO TILT FAR ENOUGH TO IMPLANT IN ARAB LEADERS' MINDS THE PERCEPTION THAT -- SHOULD THERE BE ANOTHER ARAB-ISRAELI CRISIS -- TOKYO OUGHT NOT BE LUMPED WITH THE "WEST." THUS THE FOREIGN OFFICE WAS GREATLY PLEASED BY PRINCE FAHD'S WHISPERED THANKS FOR JAPAN'S ABSTENTION IN THE ZIONISM-RACISM VOTE, AND BY KING HUSSEIN'S PUBLIC CHARACTERIZATION OF JAPAN AS "THE ONE POWER...NON-ALIGNED...AND ABLE TO MAKE A CLEAR MORAL JUDGMENT" ON PALESTINE ISSUES.

-----EXPORT PROMOTION

17. AS A RESULT OF THE EXPLOSIVE GROWTH IN MIDEAST PURCHASING POWER, THE REGION HAS BECOME AN IMPORTANT EXPORT MARKET FOR JAPAN (\$6 BILLION OR 11 PERCENT OF TOTAL EXPORTS IN 1975). WHETHER MIDEAST MARKETS CONTINUE TO GROW WILL DEPEND ON THE SUCCESS OF THE REGION'S ECONOMIC DEVELOPMENT PLANS, AND ON JAPANESE COMPETITIVENESS VIS-A-VIS THE US AND WEST EUROPE. JAPAN THINKS IT SUFFERS FROM A MIDEASTERN BIAS TOWARDS "WESTERN" TECHNOLOGY AND IN THE CASE OF WEST EUROPE IS DISADVANTAGED BY TRANSPORTATION COSTS; NONETHELESS, THE JAPANESE BELIEVE THE ABILITY OF JAPANESE TRADING COMPANIES AND

INDUSTRY TO MATCH PRODUCTS WITH MARKETS WILL ASSURE JAPAN A
SUBSTANTIAL SHARE OF THE REGION'S IMPORTS.

18. TOKYO HOPES THAT JAPAN'S GREATER WEIGHT AS A SUPPLIER OF NEEDED
GOODS AND SERVICES WILL ENHANCE ITS POSITION IN THE MIDEAST. BUT
FEW GOJ PLANNERS ENTERTAIN ANY ILLUSION THAT GREATER LEVERAGE ON
POLITICAL MATTERS WILL ENSUE. TOKYO ASSUMES THAT THE
ARABS WOULD BE WILLING TO SACRIFICE ECONOMIC ADVANTAGES TO ACHIEVE
POLITICAL OBJECTIVES IF THEY BELIEVE SUCH SACRIFICES WOULD BE EFFE-
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CTIVE.

-----JUDICIOUS INVESTMENT

19. JAPANESE "TURN-KEY" WHOLE PLANT EXPORTS TO THE MIDDLE EAST HAVE
RISEN DRAMATICALLY FROM A LWO BASE. THEY MAY REACH \$3.8 BILLION
THIS YEAR. BUT JAPANESE DIRECT INVESTMENT IN THE AREA WILL PROBABLY
REMAIN WELL BELOW THAT OF OTHER INDUSTRIAL POWERS. THE JAPANESE GAG
AT THE COST OF BUILDING AN ADEQUATE INFRASTRUCTURE. THE DEARTH OF
SKILLED LABOR, THE THINNESS OF POTENTIAL MARKETS, AND JAPANESE
INEXPERIENCE IN CONSULTATIVE ENGINEERING ALL HAVE CHILLED INITIAL
ENTHUSIASM FOR DIRECT INVESTMENT. AND DESPITE MUCH TALK ABOUT RE-
STRUCTURING JAPAN'S ECONOMY AND MOVING ENERGY-INTENSIVE INDUSTRIES
NEAR TO THE SOURCES OF PRIMARY ENERGY SUPPLY, THE CONCEPT HAS NOT
STOOD UP WELL UNDER CLOSE ANALYSIS.

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AMEMBASSY TEL AVIV
AMEMBASSY TRIPOLI
AMEMBASSY TUNIS
AMCONGEN HONG KONG
USINT BAGHDAD
USLO PEKING
USMISSION OECD PARIS UNN

C O N F I D E N T I A L FINAL SECTION OF 4 TOKYO 11065

20 TOKYO IS NOT IMMUNE TO POLITICAL PRESSURE -- BOTH IRAN AND IRAQ
HAVE PROVEN THAT -- AND IT IS WELL AWARE THAT SLOW PROGRESS ON MAY
OF THE OIL CRISIS-INDUCED "ECONOMIC COOPERATION" PROJECTS HAS CAUSED
IRRITATION. THE JAPANESE ASSERT, HOWEVER, THAT JAPAN'S PERFORMANCE
HAS BEEN NO WORSE THAN THAT OF ANY OTHER INDUSTRIAL DEMOCRACY. THE
JAPAN EXIM BANK HAS SOMEWHAT RELAXED ITS LENDING POLICIES WITH RE-
GARD TO MIDDLE EAST PROJECTS, ALLEGEDLY TO BRING THEM INTO LINE
WITH WEST EUROPEAN PRACTICES, BUT THE FINANCE MINISTRY HAS SUCCESS-

FULLY RESISTED PRIVATE INDUSTRY PRESSURE TO PROVIDE OFFICIAL "PROFITABILITY INSURANCE". BASIC GOJ POLICY IS FOR PRIVATE INDUSTRY TO PURSUE ITS INTERESTS IN THE MIDDLE EAST LARGELY WITH ITS OWN FINANCIAL AND TECHNICAL RESOURCES.

-----THE CASE FOR US-JAPAN DIALOGUE

21. THE EMBASSY BELIEVES THAT JAPAN'S INTENSIVE STUDY OF THE MIDDLE EASTERN SCENE, ITS PRAGMATIC ELABORATION OF ECONOMIC LINKS WITH KEY STATES IN THE REGION, AND ITS CALCULATED DISTANCING FROM "THE WEST" ON THE GUT POLITICAL ISSUE OF PALESTINE ALL HAVE SERVED TO INCREASE SOMEWHAT JAPAN'S ENERGY SECURITY. TOKYO CAN HOPE ONLY FOR MARGINAL GAINS, NONETHELESS, AND ITS BASIC WEAKNESSES PRECLUDE ITS TAKING THE OFFENSIVE. IN THE MIDEAST AS ELSEWHERE, JAPAN WILL CONTINUE TO AIM MAINLY AT FORESEEING AND LIMITING THE ADVERSE CONSEQUENCES OF RANDOM SHOCKS.

22. FOR JAPANESE MIDEAST POLICY, A SHARP FIX ON THE AMERICAN COURSE IS TERRIBLY IMPORTANT. WE ARE THE GUARANTOR OF JAPAN'S MILITARY SECURITY AND ALSO A MAJOR VARIABLE IN THE MIDEAST EQUATION; THE COMBINATION IS A POWERFUL INDUCEMENT TO STAY ON OUR RIGHT SIDE. JAPAN SEEKS IN THE MIDEAST TO CHART A COURSE THAT SATISFIES THE ARABS AND IRAN WITHOUT CROSSING OUR BOW. WE SUSPECT THAT JAPAN HAS TENDED TO TACK MORE TO ARAB WINDS BECAUSE IT HAS KNOWN MORE CLEARLY WHAT

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THE ARABS EXPECT OF IT. THE GOJ HAS NONETHELESS KEPT US WELL-BRIEFED ON ITS MOVES--E.G., VIS-A-VIS THE PLO--AND HAS INTERPRETED OUR SILENCE AS CONSENT, IF NOT ENCOURAGEMENT. IT HAS RESPONDED, ALBET CAUTIOUSLY, WHEN WE HAVE CALLED--E.G., IEA--OR MADE SUGGESTIONS--E.E.G., THAT JAPAN DEVELOP ITS RELATIONS WITH THE CONFRONTATION STATES.

23. ALTHOUGH JAPAN WILL NOT PLAY AN ACTIVIST ROLE IN THE MIDEAST, CLEARLY IT CAN IN IMPORTANT WAYS UNDERCUT OR REINFORCE OUR EFFORTS THERE. ITS COOPERATION IS CRITICAL, FOR EXAMPLE, TO THE EFFORT TO LINK THE OIL PRODUCERS MORE CLOSELY TO THE INDUSTRIAL DEMOCRACIES. IT CAN HELP US CONSIDERABLY IN OUR EFFORTS TO BOLSTER MIDEAST MODERATES. FURTHER, JAPAN'S RELATIVELY STRONG POSITION IN IRAQ AND THE GULF MINI-STATES COULD BE HELPFUL IN A PINCH.

24. THE EMBASSY PROPOSES MORE FREQUENT AND CANDID CONSULTATION WITH JAPAN ON MIDEAST TOPICS--IN WASHINGTON, IN TOKYO AND IN THE MIDEAST CAPITALS. A SUSTAINED EFFORT TO BUILD HABITS OF CONSULTATION AND COOPERATION IS, IN OUR VIEW, GOOD INSURANCE THAT IN A CRISIS JAPAN WILL NOT YIELD EASILY TO OIL STATES' PRESSURE. FURTHER, SUCH A RESPONSE TO THIS KEY EXTRA-ASIAN CONCERN OF THE GOJ WILL ENRICH OUR ASIAN ALLIANCE. TO THE EXTENT THAT WE CAN BOLSTER GOJ CONFIDENCE THAT ITS ASSESSMENT OF MIDEAST TRENDS IS ACCURATE, AND THAT THE US MAY BE RELIED ON IN ANOTHER CRISIS, WE INCREASE THE LIKELIHOOD THAT TOKYO WILL BE A STEADFAST AND SUPPORTIVE ALLY.

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